ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1940

NABISCO
TRADE MARK

NATIONAL BISCUIT COMPANY

NATIONAL BISCUIT COMPANY

449 West Fourteenth Street, New York

To the Stockholders:

Gross sales in 1940 were $103,670,459 compared with $98,078,477 in the year 1939. Net income for 1940 was $11,148,826 compared with $12,334,004 for 1939.

Earnings before Income Taxes and Foreign Exchange Adjustments were $408,000 greater than for the year 1939. Income Taxes were $1,352,000 greater than last year, which, together with an increase of $241,000 in Foreign Exchange Adjustments, account for the decrease in net income for 1940 as compared with 1939.

Depreciation has been charged in the amount of $3,166,791 as compared with $3,066,772 in 1939. This is an adequate allowance and follows the Company's established practice.

As stated in previous reports, the nature of our business is such that inventories, both raw materials and finished product, can little exceed current needs, and the Company does not enter into future commitments at any time in such amount as to affect its financial position materially.

The foreign investments of the Company located in Canada and England are included in the Consolidated Balance Sheet, and at the close of the year amounted to $5,483,000. Operations in both countries were maintained throughout the year with satisfactory results and in accordance with its established policy, more fully described in our last report, the Company continued its practice of withdrawing cash funds from its Canadian and English subsidiaries through permission granted by the fiscal authorities in both countries.

For comparative purposes we continue to include the earnings from operations of our foreign subsidiaries at the former par of exchange but reduce them to the current rates through the Foreign Exchange Adjustments Account, so that the net results are finally included in the Consolidated Income Account in

equivalent U. S. Dollars. We have accordingly charged against earnings as shown in the Consolidated Income Account the item of $347,085.18, which includes the adjustments on certain cash transfers made during the year.

Sales volume of our foreign subsidiaries exceeded that of 1939 and their gross earnings were also greater. However, increased Income Taxes and Foreign Exchange Adjustments reduced these earnings below those of the previous year, the net being about 9% of the Company's total net earnings.

The construction of the new bakery building at Atlanta, Ga., mentioned in last year's report, has been completed and the baking equipment is being installed rapidly. Experimental baking operations are about to start, and the plant should be in full operation before the end of May.

On the land purchased in Denver, Colo., and mentioned in last year's report, a new, one story biscuit bakery has been erected. While not as large as the Atlanta unit, it is similar in design and is now being equipped mechanically to enable us to furnish our complete line to the Rocky Mountain section for years to come. Here, as in Atlanta, ample allowance has been made for future expansion.

An addition to our Shredded Wheat Bakery in Oakland, California, was completed during the year. The entire manufacturing process has been remodeled and brought up to date with automatic baking and packaging equipment. The consumption of National Biscuit Shredded Wheat has shown a substantial growth and this Bakery is now in position to supply amply the demands of the Pacific Coast region.

The new type of packaged bran introduced early last year now has been offered for sale throughout the country and is meeting with consumer acceptance. The results so far indicate that it will take a permanent place in our line of products.

Fundamentally, the Company's products are of a perishable nature, requiring the passage of minimum time in the movement between baking and consumption. It is important therefore that production, distribution and merchandising processes be so coordinated as to insure always the receipt of fresh goods by the consumer

at the lowest possible cost. The systems developed by the Company, based on years of experience and research and designed to operate at the minimum of expense and waste, have accomplished this objective. The further results of these services are expressed in the universal acceptance by consumers of all merchandise bearing the Company's name. Only the finest raw materials, complying with the Company's rigid standards of quality, are purchased and through close laboratory control and analysis, a constant uniformity is maintained in the selection of these materials. By the use of the most modern baking equipment and improved baking methods, supervised by skilled technicians, the combined result is the best quality merchandise that can be produced. Of equal importance is the proper protection of this product, and our packaging and containers represent the best yet devised, but constant improvements are being effected in this field. To expedite the delivery of this merchandise to the consumer, the Company operates bakeries located at strategic points throughout the country. Products of these bakeries are distributed direct to the retailers through more than 250 selling branches. The daily baking programs of these bakeries are based upon current orders received from selling branches, which in turn requisition on the basis of orders taken from retailers. Branch salesmen call on retailers on an average of once a week and deliveries are usually made the following day through a well-organized system of motor truck distribution. In this way constant movement of fresh goods flows between bakery and retail store. Our salesmen carefully supervise store stocks and assist the retailer in moving our merchandise out of stores on a first-in, first-out basis, to further accomplish the arrival of our product in the consumer home in the best possible condition.

The consolidated balance sheet of the Company at December 31, 1940, and the income and surplus account on the following pages, show the financial condition of the Company at the close of its 43rd fiscal year.

ROY E. TOMLINSON, *President.*

CONSOLIDATED

ASSETS

	December 31, 1940	December 31, 1939
Cash	$32,311,529.87	$29,931,610.51
U. S. Bonds (Quoted Market 12/31/40—$1,332,494.53)	1,257,500.00	757,500.00
Other Bonds (Quoted Market 12/31/40—$53,351.25) Note: $454,000.00 Principal Amount U. S. and Other Bonds deposited for special reasons.	49,606.25	18,500.00
Accounts Receivable	2,920,018.93	2,462,223.09
Raw Materials, Supplies and Finished Product (At Cost or Market, whichever is lower, less Special Inventory Reserve of $1,019,381.51 charged to prior earnings.)	9,214,108.44	9,481,998.80
Total Current Assets	$45,752,763.49	$42,651,832.40
Notes and Mortgages Receivable	206,552.25	304,801.16
Company's Capital Stock Purchased for Resale to Employees	——	157,877.00
Plants, Real Estate, Machinery, Intangibles, etc. (At Cost in Cash or Capital Stock, Less Allowances for Depreciation.)	81,862,215.95	81,336,066.37
Prepaid Expenses and Deferred Charges	897,072.83	1,020,159.36
Total	$128,718,604.52	$125,470,736.29

NOTE: The Company's investments in and earnings of subsidiaries in Canada and England, included in the Consolidated Balance Sheet and Income Account, are indicated in the President's report.

BALANCE SHEET

LIABILITIES

	December 31, 1940	December 31, 1939
Accounts Payable . . . . (Purchase Invoices, Pay Rolls and other Accruals not due for payment.)	$2,170,549.60	$2,029,003.37
Common Dividend, Payable January 15, 1941 . . .	2,515,779.20	———
Reserve for Federal and Foreign Income Taxes . . .	6,428,463.92	4,825,558.96
Total Current Liabilities	$11,114,792.72	$6,854,562.33
Insurance and Contingent Reserve	7,740,414.56	7,705,924.79
Capital Stock, Preferred . . . . (Par Value $100.00—7% Cumulative) Shares authorized 250,000, issued 248,045	24,804,500.00	24,804,500.00
Capital Stock, Common . . . . (Par Value $10.00) Shares authorized 12,000,000, issued 6,289,448	62,894,480.00	62,894,480.00
Earned Surplus	12,508,403.70	13,555,255.63
Capital Surplus	9,656,013.54	9,656,013.54
Total	$128,718,604.52	$125,470,736.29

CONSOLIDATED INCOME AND EARNED SURPLUS
YEAR — 1940

Earnings for the year 1940:		
From Operations	$19,295,370.62	
Other Income	143,413.56	
Total		$19,438,784.18
Less:		
Depreciation	$ 3,166,790.91	
Provision for Federal and Foreign Income Taxes	4,776,082.22	
Foreign Exchange Adjustments	347,085.18	8,289,958.31
Net Earnings for the year		$11,148,825.87
Less:		
Write-down of Plants, Real Estate, Machinery, Intangibles, etc. Account, in addition to above depreciation allowance		400,000.00
Balance of Net Earnings credited to Surplus		$10,748,825.87
Earned Surplus December 31, 1939		$13,555,255.63
		$24,304,081.50
Less:		
Preferred Dividends Paid	$ 1,736,161.00	
Common Dividends Paid	7,543,737.60	
Common Dividend, Payable January 15, 1941	2,515,779.20	11,795,677.80
Earned Surplus December 31, 1940		$12,508,403.70

NOTE: No provision made or believed to be required for United States Excess Profits Tax.

REPORT OF AUDITORS

To the Stockholders,

National Biscuit Company,

New York, N. Y.

We have examined the consolidated balance sheet of National Biscuit Company and its subsidiary companies as of December 31, 1940, and the consolidated statement of income and surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related statement of income and surplus present fairly the consolidated position of National Biscuit Company and its subsidiary companies at December 31, 1940, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand Ross Bros & Montgomery

New York, N. Y.
January 31, 1941

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NABISCO

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